

## INSURANCE IN THE INFORMATION ERA



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**The Journal  
of Insurance  
Institute of India**

Established in 1974  
Volume XXXIV

**July-September 2017**

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#### **Printed and Published by**

P. VENUGOPAL on behalf of  
INSURANCE INSTITUTE OF INDIA,  
Printed at MAGNA GRAPHICS (INDIA) LTD.  
101 C&D Govt. Industrial Estate,  
Kandivali (West), Mumbai - 400 067 and  
Published from INSURANCE INSTITUTE  
OF INDIA, Plot No. C-46, G Block, Near  
American Consulate, Bandra-Kurla  
Complex, Bandra (East), Mumbai 400 051.  
Editor : **Arindam Mukherjee**

#### **Editorial Support, Design and Printing by Magna Graphics (India) Ltd.**

Website: [www.magnagraphicsindia.com](http://www.magnagraphicsindia.com)  
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# Electronic Insurance Policies in India: Issuance and Administration



The efficiency effect of applying e-commerce technology in insurance would be twofold. First, it would reduce the need for administration and management. Second, direct sales to clients could be used to reduce the cost of commissions paid to intermediaries.

– *E-Commerce and Development Report, 2002, UNCTAD*

## Abstract

The insurance industry has been benefitted, from time to time, with technological inventions and developments like other industries. Currently, the system of electronic insurance (e-insurance) has been introduced in India by the IRDAI with the objective of having a potent, fair, safe, stable, and successful insurance industry. This system, having multifarious and multifaceted advantages for the insurance companies, policyholders/beneficiaries, insurance industry, and society

as a whole, has been thought to revolutionize the traditional system of issuing and servicing insurance policies. Taking into account the current system, the present paper unearths the legal provisions relating to issuance and administration of e-insurance policy in India. Further, it mentions some sensible suggestions for effective management of e-insurance.

## Keywords

Electronic insurance, insurance policy, e-insurance account.

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## Introduction

Today, the development of a country is measured, *inter alia*, in terms of technological capabilities and efficiency and in this respect, the advent of information technology, including computer aided devices, has positively influenced the human activities in every walk of life resulting in the determining factor of the progress of countries, institutions, and individuals. The information technology is thought to be pro-people and pro-development and, in fact, it is not only a matter of an individual rather of public interest, common good, and the necessity of time, intended for all round development of the whole society. The significant developments in the field of information technology have provided an opportunity to remove our historical disabilities and work in interest of our nation building. Recognising the potential of information technology in the field of insurance and to fulfill the growing demands of customers, the Insurance Regulatory and Development Authority of India (IRDAI) has taken varied initiatives including issuing guidelines, regulations etc. Particularly, the Insurance Regulatory and Development Authority of India (Issuance of e-Insurance Policies) Regulations, 2016 have been made by the IRDAI which came into force on 1st October, 2016.

## E-Insurance Policy: Concept, Need and Importance

The usefulness of insurance has been fully recognised in every society as a social cooperative device to compensate a person in the hour of need. To subscribe and service an insurance policy, the customer had to approach the office of the insurer or an insurance agent and as an evidence of contract of insurance, the insurance policy,

containing the terms and conditions and other details, was issued by the insurer in physical mode only. The risks of loss/damage associated with the physical policy are a well-known fact which necessitated a rethink of alternative mechanisms. The concept of e-insurance, riding on the benefits of Information Technology, has been introduced which is more convenient, safe and beneficial for both the parties-insurer and insured.

The e-insurance policy has been defined in Regulation 2 (vii) of the IRDAI (Issuance of e-Insurance Policies) Regulations, 2016 as under:

- 'E-insurance policy' or 'electronic insurance policy' shall mean a policy document which is an evidence of insurance contract issued by an insurer and digitally signed in accordance with the applicable provisions prescribed by law and issued in an electronic form either directly to the policyholder by the insurer or through the platform of registered insurance repository.

The E-Commerce and Development Report, 2002 mentions as under:

- E-insurance can be broadly defined as the application of Internet and related information technologies to the production and distribution of insurance services. In a narrower sense, it can be defined as the provision of an insurance cover whereby an insurance policy is solicited, offered, negotiated and contracted online.

Thus, it is evident from the above that e-insurance policies are issued by the insurer online. Additionally, the e-insurance policies have the following advantages:

**Safe and Convenient-** The e-insurance policies are comparatively safe and convenient as these are maintained and stored electronically without any fear of loss/damage to policies and it can be retrieved easily from anywhere and at anytime only by logging on the portal of the respective Insurance Repository. A person may store and maintain his more than one policy in his e-insurance account.

**Less Expensive and Time Saving-** The e-insurance policies are economic for insurers as well as insured as it reduces the cost of issuing and maintaining insurance policies and the insured does not need to submit KYC (Know Your Customers) details each time a new policy is subscribed. Additionally, the insurers have been expected to offer discounts in the premium rates to the policyholders in issuing e-insurance policies which will result in cheaper insurance products over a period of time. Further, it is relevant to mention here that the personal details like address or contact number may be modified or revised without approaching the office of the insurer speedily and accurately without any hurdle.

Additionally, these policies are environment friendly, will increase efficiency and transparency and provide single point of service, etc.

## Entities Involved in e-insurance

In respect of issuance/management of e-insurance policies the following entities have a leading role to play:

**IRDAI-** The IRDAI, with the mission of protecting the interests of the policyholders and to regulate, promote and ensure orderly growth of the insurance industry, has full control over insurance business in India. With the objective of dematerializing (electronic

form) the insurance policies, the IRDAI has issued guidelines on Insurance Repositories and electronic issuance of insurance policies, the procedure for appointment of Approved Persons in addition to above mentioned regulations etc.

**Insurance Repository-** The system of insurance repositories, the first of its kind in the world, has been introduced by the IRDAI to provide policyholders the facility of keeping all insurance policies (life, general and health insurance policies) in electronic form. In this system, the policies may be issued and serviced in electronic form from single point. Additionally, the policyholders may change, modify and revise the insurance policy, if required,

the Companies Act, 2013 or other entity and which has been granted a certificate of registration for maintaining data of insurance policies in electronic form on behalf of insurers. In a true sense, the insurance repositories are service providers who allow the policyholders to open 'e-Insurance Account' free of any charge. In e-Insurance Account, the portfolios of insurance policies of policyholders are held in an electronic form. Earlier, five insurance repositories were licensed by the IRDAI to function as insurance repository but in September, 2015 SHCIL Projects Limited surrendered its license and currently there are currently only four insurance repositories in India as mentioned in Table-1 below:

**Table-1: List of Insurance Repositories**

License Number	Name and Address of the Insurance Repository	License Valid Upto
1	M/s NSDL Database Management Limited 1 <sup>st</sup> Floor, Times Tower, Kamala Mills Compound, Senapati Bapat Marg, Lower Parel, Mumbai – 400 013. Website: <a href="http://www.nir.ndml.in">www.nir.ndml.in</a>	31/07/2018
2	M/s Central Insurance Repository Limited, Phiroze Jeejeebhoy Towers, 17 <sup>th</sup> Floor, Dalal Street, Mumbai – 400 001. Telephone: 022-2272 1383 Website: <a href="http://www.cirl.co.in">www.cirl.co.in</a>	31/07/2018
3	M/s Karvy Insurance Repository Limited 'Karvy House', 46, Avenue 4, Street No 1, Banjara Hills, Hyderabad – 500 034. Website: <a href="http://www.kinrep.com">www.kinrep.com</a>	31/07/2018
4	M/s CAMS Repository Services Limited, No. 158, Rayala Towers, 1 <sup>st</sup> Floor, Anna Salai, Chennai – 600 002. Telephone: 044 3021 2997 Website: <a href="http://www.camsrepository.com">www.camsrepository.com</a>	31/07/2018
<b>Source: IRDAI Website</b>		

speedily and accurately in order to bring about efficiency, transparency and cost reduction in the issuance and maintenance of insurance policies.

An 'Insurance Repository' is defined as a company formed and registered under

All the insurance repositories have been mandated to maintain insurer wise the following electronic records and documents-

- records of e-insurance accounts with a unique number

- records of list of e-insurance policies issued and records of list of e-insurance policies converted back into physical form
- the date of assignment along with particulars of endorsement in insurance policies issued in electronic form
- a register and an index of policyholders and their nominees / assignees / beneficiaries in the respective e-insurance policies
- record of instructions received from and sent to policyholders and insurers
- history of claim data and record of transactions handled
- such other records as may be specified by the IRDAI from time to time for carrying on the activities as an insurance repository.

Every year, the insurance repositories have to intimate the IRDAI the place where the records, documents and their back up facilities are maintained as on 31st March. Additionally, the insurance repositories before commencing the operations shall put in place measures to safeguard the privacy of the data maintained and adequate systems to prevent manipulation of records and transactions.

**Approved Person-** An 'approved person' is an entity appointed by an insurance repository as its agent to perform certain assigned tasks in relation to and incidental to the functions of the insurance repository. In simple terms, it is a Point of Sale appointed by the insurance repository to extend the insurance repository services. It is pertinent to mention here that the insurance repository or its Approved Person is not allowed to solicit insurance related activities and services.

**Insurance Companies-** The insurance companies have to mandatorily utilize the services of the insurance repositories for issuing and maintaining e-insurance policies and they have to enter into service level agreements with one or more insurance repositories for maintaining the electronic insurance policies of their respective policyholders. The contents of the service level agreements should include sections on-

- Scope of services such as Basic, Premium and others
- Role of various parties
- Non-disclosure provisions
- Cost of additional/optional services provided on behalf of insurers
- Inspection/audit of the insurance repository systems by the insurers
- Turn Around Times
- Tenure of the agreement
- Limitation of liability etc.

**Policyholder-** Every person has been allowed to open only one e-Insurance Account with any insurance repository. To avoid duplication of account by the same policyholders, the insurers and insurance repositories have been mandated to put in place measures in this respect. The e-Insurance Account may be opened by a person directly with insurance repository or through authorised Approved Persons or through insurers.

## Operational Framework

**Opening of e-Insurance Account-** An e-Insurance Account may be opened by a person adopting anyone method as mentioned below-

- visit webpage of any licensed insurance repository, fill up required information, print it and send to office of the respective insurance

repository with supporting documents of identity and address or

- visit office of the Approved Person, KYC compliance and verification or
- contact the insurer, specify the insurance repository, KYC compliance and verification.

An e-IA is opened within 7 days from the date of submission of application complete in all respects. To open an e-Insurance Account the existence of an insurance policy is not a prerequisite. If a person has an insurance policy and desires to convert it in e-insurance policy, he may do it after creating an e-Insurance Account but when a person is subscribing to any new insurance policy that fulfills the criteria given in Table-1 in terms of sum assured or premium, having an e-Insurance Account is mandatory. After opening an e-IA, the respective insurance repository provides a welcome kit and helps with the details of how to use the account. At the time of issuing a new e-insurance policy, the insurers would be sending an insurance information sheet containing the basic details of insurance policy.

**Electronic Proposal Form-** The 'electronic proposal' (e-proposal) means a proposal form for an insurance policy filed in electronic form by the prospect with his electronic signature or be validated by One Time Password. All the insurance companies soliciting insurance business through electronic mode have been mandated to create an e-proposal form similar to the physical proposal form having the provision of capturing information in electronic form for easy processing and servicing. The e-proposal form must contain a provision to capture the e-Insurance Account number to be filled by prospect wherever available. The insurer must make available physical version of

e-proposal. When the information is captured in physical form, the insurer shall make necessary arrangements to convert the information furnished by prospects into electronic version. If the prospect has no e-Insurance Account number, the insurer has to facilitate the creation of an e-Insurance Account number through the insurance repository system. The details furnished in e-proposal form by the prospect have to be validated by One Time Password or electronic signature.

**Issuance of e-insurance Policies-** The insurers have to issue e-insurance policies that fulfill the criteria given in Table-2 in terms of sum assured or premium. Additionally, every insurer shall mandatorily issue e-insurance policies in disaster prone and vulnerable areas as specified by the IRDAI.

**Table-2: E-insurance Policy Norms**

Line of Business		Sum Insured* (equal to or exceeding) (in ₹)	Single/Annual Premium* (equal to or exceeding) (in ₹)
Pure term (excluding term with ROP)**		10,00,000/-	10,000/-
Other than Pure term (including term with ROP)**		1,00,000/-	10,000/-
Pension policies		NA	10,000/-
Immediate Annuities (Pension p.a.)		NA	10,000/-
All retail General Insurance policies except Motor		10,00,000/-	5,000/-
Individual Health		5,00,000/-	10,000/-
Motor Retail		All policies	All policies
Miscellaneous	Individual Personal Accident & Domestic Travel	10,00,000/-	5,000/-
	Individual Travel Insurance (Overseas)	All Policies	

\* Electronic policy shall be issued if either the Sum Insured or Single/Annual Premium criteria is met.

\*\* Micro-insurance policies are exempted

It is evident from Table-2 that in following cases the e-insurance policies have to be mandatorily issued by the insurers-

- All life insurance policies where the single/annual premium is equal or more than ₹ 10,000/- or the sum assured is ₹ 1 lakh (₹ 10 lakh for pure term plans).
- All general insurance (except health, motor and travel insurance) policies having single/annual premium equal or more than ₹ 5,000/- or the sum insured is ₹ 10 lakh or more.
- Individual health policies of sum insured of ₹ 5 lakh and above or single/annual premium of ₹ 5,000/-.
- Personal Accident and Domestic Travel Insurance policies having the single/annual premium or sum insured equal or more than ₹ 5,000/- and ₹ 10 lakh respectively.

Micro-insurance policies are exempted from being offered electronically.

The e-insurance policies may be issued by the insurers either directly to the policyholders or through the registered insurance repositories. When it is issued in electronic form by the insurer directly to the policyholder, it has been mandated to issue it in physical form also, as a replica of the electronic form. But, when the policy is issued through insurance repositories, the issuance of policy in physical form is not required. It is to be noted that the e-insurance policy has to be issued with digital signature.

### E-insurance Policy: Current Scenario

The Annual Reports of the IRDAI provide the following data:

**Table-3: No. of E-insurance Accounts and Policies Converted**

	No. of eIAs	No. of Policies converted into Electronic Mode
2014-2015	7,41,481	3,38,065
2015-2016	8,07,705	4,11,832


**Source:** Annual Reports, IRDA.

It is clear from Table-3 that the numbers of e-Insurance Accounts have increased 8.93% (from 7,41,481 to 8,07,705) within the period of only one year. Following the same trend, there is a 21.82% growth in the conversion of existing policies into electronic mode has been recorded from 3,38,065 to 4,11,832.

### Concluding Observations

The e-insurance policies are the result of evolution of technology having the multiple positive advantages for the policyholders/beneficiaries, insurers, insurance industry, and society as a whole. But, this platform has also manifold challenges including regulatory and supervisory issues. Firstly, there is need to redefine the relationships between insurance companies and their agents and brokers, as e-insurance has resulted to some extent, in the role of agents and brokers. Secondly, there is concern for proper protection of policyholders' personal data stored by the insurance repositories having the potential business leak hazard risk. The back-up of the policyholders' personal data should be created regularly and stored under the proper monitoring system of the IRDAI. Thirdly, to achieve the goal of a potent, fair, safe, stable, and successful insurance industry the existing insurance policies also should be converted to e-insurance policies. Fourthly, the current system of 'service level agreements with one or more insurance repositories by insurers' can



be replaced with mandatory system of engaging all the insurance repositories by every insurer for maintaining uniform insurance system. For this purpose, the 'service level agreements' can be between IRDAI and insurance repositories and it is suggested that the insurers be allowed to utilize the services of insurance repositories through IRDAI. It is further suggested that the expenses to be incurred in this respect be equally shared by all the insurers. Special efforts are required to educate and create awareness among the common people regarding advantages of e-insurance policies through electronic and print media. 

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